Slovenian Parliament to Implement the Golden Rule

A small group of protesters braved the weather in front of the national parliament in Ljubljana, Slovenia on the 23rd and 24th of May. As the crisis in Europe grinds on, the protesters' assembled to oppose some of the changes that were agreed on between the ruling coalition in Slovenia and the opposition parties. It had had been voted in by 78 in favor and 8 opposed, out of a 90 possible votes.

The two main reforms debated were the implementation of the so-called golden rule, and restrictions on referenda against government reforms. While the coalition government of Alenka Bratušek and opposition parties see the reforms as a way to avoid an international bailout from the European Union (EU) or the International Monetary Fund (IMF), the protesters clearly see this as an attack on their livelihood.

Ever since the start of the uprisings in Slovenia, last November, the protests have represented a complex mix of political, social and economic ideas. While these last latest protests against the specific reforms are much smaller, one again sees the oft-contradictory mix of demands and solutions side-by-side. Some groups, such as the far right Zveza Hervardi, want a reversal of the lost sovereignty to strengthen the autonomy of the nation. Others are looking to end the imposed cuts, but without necessarily rejecting Europe as a common space.

But regardless of how the protesters imagine the future or why they struggle against these changes, the government is pushing the process forward. The restriction on recourse to public referendum in order to block reforms has little to do with the actual structural reform to the economy being demanded of Slovenia by the EU and financial markets. However, it will give government a degree of protection against legal challenges by the wider public.

The opposition has generally agreed with these restrictions; indeed, it was also on the agenda of the last government under Janez Janša, but they used it as a bargaining chip in the negotiations over the terms of implementation of the fiscal compact.

If the referendum question has been secondary, the implementation of the fiscal compact is at the very center of Slovenia and the EU's attempt to get out the crisis. The compact goes back to calls in the early days of the European sovereign debt crisis for a deeper financial integration of the EU. These calls initially came from the European Central Bank (ECB) and the IMF, who proposed standardized fiscal regulation of the Eurozone to control budgets, integrated banking systems and creating Eurobonds.

The golden rule itself is part of this package of a larger fiscal regulation treaty signed by all EU member-states except the United Kingdom and the Czech Republic on January 30, 2012. Slovenia ratified the treaty in the national parliament in May 2012. The treaty includes among the provisions the balanced budget, the debt break rule (for EU states with sovereign debts over 60% of GDP) and automatic correction mechanisms.

With the ratification came the obligation to insert the rule of balanced budget, the golden rule, into the constitution. This rule mandates the government to balance the budget by 2015 and maintain the balance except in "exceptional" circumstances, though this remains fairly vague. It is worth noting that a balanced budget is defined as an annual deficit below 3 percent. For countries with a budget deficit, this means finding new sources of revenue or cutting expenditure, or both. In the case of Slovenia this means reducing a budget deficit of 4.6% in less than two years. In practical terms this will surely mean deep cuts in public spending.

Apart from the privatization of public enterprise due to start in September, such as the Nova Ljubljanska Banka and the airport outside Ljubljana, and a value added tax increase, there are few other sources of untapped income for the state. But even with privatization and tax hikes, it is unlikely the state can close a budget gap of almost 5 percent over long term; the privatization will give the state an initial windfall from the sale, but will then remove a productive asset from the state revenue, and taxes on wages or consumer goods could actually reduce sales (thus tax revenue), since people will have less income to spend.

On top of this, Slovenia still has to deal with the 7 billion Euros of banking debts. The bailout, if it comes from the state and not the EU or IMF which Slovenia would like to avoid, will add a significant burden on reducing the deficit. In short, this fiscal reform is seen as part of the process of appeasing markets so as to keep interest rates lower and investments coming in, and thus also avoiding a bailout. Yet it seems that without finding a significant source of revenue, the consequences for residents in Slovenia will likely be the same as if there would be bailout: deep cuts to social welfare and public services and the privatization of more sectors of the economy. So regardless of the differing ideologies of the protesters, they are likely to share a common anxiety with people all over Europe about what lies ahead in the coming years.

By David Brown